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TECHNOLOGY

Orion Launches Compliance Tool With Share Class Monitoring

The newly released tool seeks to automate multiple compliance processes, including share class monitoring.

Rob Burgess | Feb 28, 2023

On Monday, wealthtech company Orion Advisor Solutions announced the introduction of a new Client Oversight tool within its Orion Compliance suite of products.

Among the advancements is a new, automated share class selection monitoring feature.

Monday was also the first day of Orion's National Ascent 2023 Conference in Orlando, Fla. Between sessions, Kylee Beach, Orion's general counsel, and Louis Giannini, Orion's director of product for the compliance group, took the time to discuss these latest developments.

Beach said part of what has been driving the new technology is how Orion has heard from client firms "who are experiencing a heightened interest," from the Securities and Exchange Commission.

"I think we have RIAs facing a challenging compliance environment and I think we continue to make our first priority at Orion trying to figure out pain points that we can solve technologically," said Beach.

The SEC's Share Class Selection Disclosure Initiative was launched in February 2018, and allowed firms with undisclosed conflicts concerning how they selected mutual fund share classes for clients to self-report to the SEC in order to avoid additional penalties.

But this regulation, said Beach, "has been something that has plagued advisors."

"Any advisors going through exams for the last several years knows that the SEC wants to ensure you're picking the cheapest share class available for clients," she said. "It sounds like an easy concept but the practical reality of it is that's really challenging for compliance officers to do because it means understanding, on almost a daily basis, what funds might be available at what custodians and what share classes are available and that your client is eligible."

With this latest advancement, Orion will be able to create a daily alert on share class monitoring, said Beach.

"So, no longer are those spreadsheets necessary. You can actually log in and see on any given day if you actually have compliance concerns that you should be checking into. And that functionality has never existed," she said. "Routinely we've had clients using our platforms who are seeing either fines or reimbursements going through SEC exams of very high six figures. Sometimes in the seven figures just on this issue."

In addition to these Share Class Alerts, the Client Oversight tool also offers Pre-Trade Compliance, in which users receive automated approvals and rejections for client orders based on configurable policies with an end-to-end workflow; Ownership Alerts, which alerts compliance officers when the firm acquires more than 5% of a public company's shares; and Large Trader Alerts, which flag when transaction volume or amount equals or exceeds the rule's established thresholds within a daily or monthly timeframe.

William Trout, director of wealth management at Javelin Strategy & Research, said "this launch is a logical response to the demands of an increasingly assertive regulator."

"Clearly Orion is also seeking to rationalize the costs of successive acquisitions with this move, but I would ask, 'What really is new here?' The functionality described here is offered by other vendors focused on compliance and surveillance. Perhaps the 'breakthrough' element pertains

to the packaging of these distinct functionalities in an all-in-one solution designed specifically for the registered investment advisor,” said Trout.

Beach said in response that to be competitive with what Orion has done, “you would need all of the building blocks that we have brought together” including BasisCode Compliance and risk analytics platform startup HiddenLevers, both of which they acquired in 2021.

“I’m not aware of anyone else who has been able to build those components yet today. Not saying they won’t eventually,” said Beach. “I think this will hopefully be in high demand. But today I’m not aware of anyone else who has been able to bring that together.”

Giannini said they had been beta-testing these new tools and had been making improvements based on the feedback they’ve been receiving.

“What’s really exciting is we’re getting some feedback from clients who have been going through external audits and they’re saying, ‘Hey, some of these processes aren’t up to par including share class review,’” said Giannini. “And what’s interesting about that is that these processes are largely rote, mundane, very nuanced processes, but that increases their exposure to failure. Whether by human error or just by misplacement. One of the great things that we’ve heard is that the process that we are releasing ... for share class review streamlines and automates that.”